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Spring 2018

Could Aldi Succeed in Canada?

Sonia Boyer
sjb035@bucknell.edu

Justin Carr
jmc074@bucknell.edu

Sam Loomis
stl011@bucknell.edu

Maria Prothero
mcp021@bucknell.edu

Quentin Street
qbs001@bucknell.edu

See next page for additional authors

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Recommended Citation

Boyer, Sonia; Carr, Justin; Loomis, Sam; Prothero, Maria; Street, Quentin; and Chen, Jimmy, "Could Aldi Succeed in Canada?" (2018). *Global Manager Abroad*. 7.
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Authors

Sonia Boyer, Justin Carr, Sam Loomis, Maria Prothero, Quentin Street, and Jimmy Chen

Could Aldi Succeed in Canada?

GLBM 400

Professor Chen

Sonia Boyer, Justin Carr, Sam Loomis, Maria Prothero, and Quentin Street

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1. CONTEXTUAL INFORMATION AND RESEARCH QUESTIONS

1.1 History of Aldi

Initial Growth

In 1946 a pair of brothers named Karl and Theo Albrecht founded the supermarket chain Aldi in Essen, Germany. The storefront, a local grocery store, had been in operation since 1913 when the Albrecht's mother began the business ("Company Profile", 2018). At the time, most market leaders ran cooperatives, a system that required customers to collect rebate stamps which needed to be sent in at regular intervals for a refund; however, the brothers decided their business would run better if they instead subtracted the legal minimum rebate of three percent before sale ("Buying up the shelves: Retailers and supplier rebates," 2015). In addition, by removing stock they could not sell from the shelves, eliminating advertising and fresh produce from their budget, as well as keeping store size small, they were able to greatly increase their profit margin ("Company Profile", 2018).

Their plan was a great success, and by 1960, they owned over 300 shops. In 1962 they introduced their current name, ALDI, which stood for Albrecht Diskont, which is their family name followed by the word for discount, emphasizing their focus on low prices (Ruddick, 2013). The brothers also split the company during an argument about whether or not their shops should sell cigarettes (Ruddick, 2013). Since 1966, the company has been legally split into Aldi Sud and Aldi Nord, although they occasionally combine with some store brands, as well as when negotiating with contracting companies (Ruddick, 2013).

International Expansion

Aldi started their international expansion in 1967, when it moved into Austria. From there, they continued their expansion, starting with the Netherlands, and continuing on moving into many new markets as shown in Table 1. Currently, the Aldi group operates more than 8,000 stores worldwide (“Company Profile”, 2018). Aldi Nord runs stores in Belgium, the Netherlands, Luxembourg, France, Poland, Spain, Denmark, and Portugal. It also runs their Trader Joe’s markets in the United States. Aldi Sud operates in Australia, Germany, Austria, Hungary, Ireland, Slovenia, Switzerland, UK (Figure 1). Throughout its history, Aldi has always been successful, as their presence in almost every country they have entered has grown exponentially over time.

Aldi’s Strategy

Aldi has remained a popular grocery market player because they have stayed true to the tactics that have always made them successful. They have always run no frill stores and focused on providing the customer with a variety of items at a discounted price. They specialize in staple items including food, beverages, toilet paper, sanitary articles, and other inexpensive household items (“Company Profile”, 2018). In addition, Aldi is able to cut costs by carrying their own Aldi brands. By working with manufactures, they can build products that are cheaper to store, ship, and sell than products of known brands (Aldi History, 2018). The majority of the brands they carry (almost 90%) are their own store brands, while they carry at most two other brands for a given item (“Company Profile”, 2018). Aldi also place a “double guarantee” on their products, saying that if the product is not satisfactory, they will replace it and give you your money back (Aldi History, 2018). Therefore, Aldi has smaller stores than other competitors that carry more brand choice. They typically have only four to five aisles, and push to cut prices at every point. They even have been known to buy second-rate locations as another method to lower their costs.

These smaller stores cut prices even further by eliminating expensive barcode scanners. For the most part, cashiers memorize price lists, and some even claim that they are quizzed on a regular basis (“Company Profile”, 2018). Tactics like these keep Aldi as one of the most popular retailers.

Aldi also uses several other tactics to keep their prices low and sales high. Like many other stores in the US, Aldi uses volume purchasing, which creates sizable discounts for both the company and its customers. They also run a promotion called Aldi finds every week, which offers dozens of food and other products at even further reduced price (Aldi History, 2018). Aldi has stuck to their no fresh meat value from their early years, which now saves them thousands on refrigeration costs. Aldi has cut additional costs by leaving out non-essential amenities, such as banking, pharmacies, and check cashing counters (“Company Profile”, 2018).

Finally, their German atmosphere contributes to their margins in several ways. When you are shopping at Aldi, you bag your own groceries and pay four cents per bag used. You also have to put a twenty five cent deposit down to get a cart, which eliminates theft, as well as the need to pay an employee to collect all of the carts that have been left outside the stores (“Company Profile”, 2018). Although Aldi is private and its financials are not publicly available, a limited assortment store, which is the closest to Aldi’s model, has gross margins of around ten percent, while normal groceries stores average at around twenty five percent (“Company Profile”, 2018). These factors have contributed to Aldi’s rapid expansion throughout the United States since their initial storefront in Iowa in 1976. As discount grocery stores have become increasingly popular in the United States, Aldi has been able to use their “everyday low prices” model to expand; in

2017, Aldi announced that it would increase their US store presence by fifty percent with a five billion dollar, five year investment.

1.2 Research Questions

With an ever expanding business in the United States, Aldi has performed remarkably well using their discount grocery business model. The “no frills” style of shopping seems to have positively contributed to Aldi’s revenues across all 1,650 US locations. While Aldi and its subsidiary, Trader Joe’s, have been gaining market share in the United States, the supermarket chain has not publicly disclosed any plans for a Canadian expansion. Current market research shows consistent growth in the discount grocery sector in North America (Nielsen, 2016), so why has Aldi stayed out of the Canadian market?

The purpose of this study is to assess how likely Aldi is to succeed in the Canadian market. We will review Aldi’s strengths and weaknesses as a major competitor within the North American discount supermarket industry and suggest methods for market entry. While Canada’s population is only a tenth of that of the United States, geographic proximity and economic similarities have created comparable markets with only a border dividing either side. These similarities could help Aldi enter the Canadian market because the company already has a supply chain system in place in North America. This study will first examine the current discount supermarket industry within Canada and the potential competitors. Canada’s 37 million inhabitants shop at a variety of discount grocery stores such as Walmart Canada and Costco Wholesale; these supermarket chains have enjoyed success within Canada but, along with competitors, have heavily saturated the retail grocery market.

To understand the Canadian market, this study will examine consumer behavior in Canada and how it differs from the United States. Due to strong competition, Aldi may have to further differentiate themselves and alter their North American strategy when entering the Canadian market. Does Canadian consumer behavior match any of the eighteen countries Aldi has already ventured into? In order to succeed in Canada, Aldi will have to assess what Canadian regions their business model can succeed in. While Canada may have a significantly smaller population when compared to the United States, the country is vast and, like their southern neighbors, contains a wide variety of cultures and ethnic groups. Therefore, due to the varying cultural makeup of the Canadian regions, market research will have to be conducted to analyze marketing preferences for each Canadian province.

With 10,000 stores in 18 countries, Aldi has the capital ability to expand rapidly and venture into Canada with either Aldi or their popular subsidiary, Trader Joe's. Both lines have succeeded because they offer different shopping experiences than their competitors, whether that is discount focused, concentrated on fresh produce, or market specific products. While Aldi may lack the size or supply chain abilities that Walmart, Costco, or Kroger has, their market share is still significant and the company's business model has seen success across all 35 US States they have ventured into.

2. COMPETITIVE LANDSCAPE

Aldi has a unique offering in the grocery market that differentiates their brand from other affordable grocers. This has given them an advantage in the US market and proves to be a reliable plan for expansion into Canada. As previously discussed, Aldi's success has been due to

their “no frills” style of shopping and low price point, which has significantly increased their revenues of their US locations. In addition, Aldi has been making a conscious effort to invest in their in-store experience by upgrading their stores with more appealing formats to give them an advantage over other low-cost grocers. This, along with a low price offering has enabled them to attract customers to the store, avoiding the stereotype that discount stores look and feel cheap. In order to understand the potential for Aldi’s success in the Canadian grocery market, we will explain the competitive landscape and venture rationale upon entry. Aldi has found success in two distinct grocery markets, Europe and the United States. In order to fully understand how they have the potential to be successful in the Canadian market, it is essential to understand what previous markets they entered were like. The previous section outlined Aldi’s growth, primarily in the European market, so we will now focus on the American and Canadian market.

2.1 United States

The United States is the second largest grocery market in the world, at about 5.4 trillion dollars, which allows a new entrant plenty of market share to steal from the competition. Although there are several large national chains that dominate much of the grocery market, regional and niche stores still claim a significant amount of market share. Figure 2 shows the largest food retailers for 2016. Although it is dominated by large chains, such as Walmart and Krogers, niche stores such as Whole Foods and Trader Joe’s, along with regional companies such as Wegmans remain a large part of the market. Within this market, Aldi has been able to very quickly gain a 1.3% market share, which constitutes approximately 70 million dollars in revenue. This puts them ahead of established players like Trader Joe’s, and other new well backed entrants into the grocery market such as Amazon.

As previously discussed, Aldi is competing in the low price grocery market. This puts them squarely against major players such as Walmart and Costco in the US. Despite being put squarely against the major players in the US market, Aldi accomplished a significant market share by playing the low-cost game in a different format. Whereas Walmart and Costco use large format stores with volume discounts for branded food items, as already discussed, Aldi uses a smaller and more focused format that appeals to their market.

2.2 Canada

Although similar in many respects to the US, Canada still has a significantly different grocery market than the US. In terms of sheer size, Canada's grocery market is significantly smaller than the US's, at only 200 billion CAD. The Canadian market is also far more concentrated, with 50% of grocery sales being dominated by 3 major players, Loblaw, Metro and Empire (Vincent, Allion, Florescu, & Steckly, 2017). Additionally, Canadian consumers gravitate towards buying private store label brands, which every major retailer has capitalized on. Finally, Canadian consumers have also begun to frequent convenience stores for their grocery needs, which only a few of the major players have capitalized on.

Loblaw

Loblaw is the largest grocer in Canada, with 2,400 stores nationwide (Vincent, Allion, Florescu, & Steckly, 2017). They also control President's Choice and No Name, the two most successful private labels in the Canadian market. This allows them to have significant price control within their stores, which helps continue their success.

Metro

Metro attempts to differentiate themselves by controlling costs, both inventory costs and other operating expenses. In addition to this, they also have an instock guarantee, which satisfies a major pain point for Canadian consumers. This has allowed them to remain a relevant player in the grocery market.

Empire

Empire is a conglomerate retail group that owns several of Canada's largest grocers, including Safeway, FreshCo and IGA. Empire recently purchased the Canadian division of Safeway, but has struggled to integrate it into their existing infrastructure. These difficulties have frustrated many of Safeway's customers. Additionally, Empire owns Shoppers Drug Mart, the largest convenience store chain in Canada. This has aligned them with recent trends in the Canadian market, further strengthening their position. Empire also has a popular private label, Compliments, which allows them to compete for the low cost consumer. Although these three traditional grocery companies make up the majority of the Canadian grocery market, recently several new formats of stores have begun to enter the Canadian market. These new formats have begun to disrupt the market in recent years.

Superstores

Recently, US superstore companies such as Walmart and Costco have also entered the Canadian market with great success. Walmart is continuing to see a rise in trip frequency from their customers (Sherk, 2016). Costco is also seeing great success in the Canadian market, with 40% of Canadian consumers shopping at Costco for some sort of food product. They plan to increase their rate of expansion over the next 5 years.

New Entrants

Much like the US, Canada is also seeing a rise in new concepts or niche grocers. FarmBoy is an example of a new national entrant in the Canadian market that focuses on freshness, quality and prepared foods (Powell, 2018) Whole Foods and Amazon are also ramping up expansion in Canada. Prior to the Amazon acquisition, Canada was already Whole Foods' largest market outside of the US and the Amazon acquisition will only add to that expansion. Additionally, the Whole Foods infrastructure will give further resources to Amazon Fresh, which was already becoming a significant player in the urban Canadian markets. A strong push from Amazon with both concepts will continue to raise Canadian consumers' expectations from their food retailers.

2.3 Venture Rationale

The decision for Aldi to enter into Canada can be justified through key factors: the large discount grocery market and potential to infiltrate, price sensitive consumers who value low price and the strong US presence that will jumpstart Canadian growth.

Presence in the United States

Aldi's already established presence and experience in the US will jumpstart their growth in Canada. Lidl, a sister company to Aldi, almost expanded into Canada in 2003, but decided to wait. Their hesitation was due to some important factors. Firstly, they felt that starting operations in the US would make them more prepared to enter the Canadian market. The US is less consolidated than Canada, with larger urban centers and a much denser population. Additionally, the US is less developed in discount grocery, whereas 40 percent of Canada's grocery sales come through discount. Launching in the US first also allowed Lidl to establish a strong business system; setting up supply chain capabilities in North America, developing human resource teams

and experimenting with product sourcing. Gaining a foothold in the US has allowed Lidl to establish their business base, making them more prepared for success in Canada. This is important because Canada has a more diverse, refined market with a challenging geography, only serving 36 million people. The analysis of Lidl applies to Aldi in respect to Aldi's already established base business in the US which gives them a foothold for expanding to Canada.

Price sensitivity

The low-price point that Aldi offers will attract price conscious consumers. As Canadian consumers become more aware of trends, there has been an increasing pressure on price for the retail grocery sector. The University of Guelph's Food institute expects that the average Canadian household would spend an additional \$345 on groceries in 2016 (Ross, 2018).

Although this may seem like a good thing, consumer confidence has actually been shown to be declining. A recent survey conducted by Precima found that "99% of Canadians have noticed an increase in food prices, while a further 59% of Canadians are concerned about food price inflation over recent months" (Ross, 2018). Subsequently, declined consumer confidence coupled with category inflation has put tremendous pressure on retailers margins. "According to Statistics Canada, supermarkets and other grocery stores saw a 4.5% year-over-year decrease in sales in November, while the retail industry as a whole only grew 2.3%, the lowest annual growth since 2009". For Aldi, this is a good thing, because they provide a low price point that meets the majority of consumers' needs.

3. COMPREHENSIVE VENTURE ANALYSIS

3.1 Cultural and Social Aspects

Understanding the Canadian Consumer

The Canadian consumer is interested in the origins, quality, and price of products. There has been growth in fair trade and organic, natural products. Canadians are concerned with the environmental and social consequences of their consumption. (“Reaching the Canadian Consumer,” 2018). Another trend in Canadian consumption is eating healthy food options and being conscious of the nutritive value of food. Canadian shoppers are trusting of consumer-voted awards with 78% considering a consumer endorsement very influential (“BrandSpark Canadian Shopper Study,” 2015). Consumers in Canada are willing to try a new product if it promises to maximize their value for their money or proves to be innovatively superior to alternatives brands. Canada boasts one of the highest standards of living in the world because health and wellness are a priority to consumers. Canadians are willing to pay a premium, if they still perceive it a valuable deal, for natural and organic health foods.

Canadians expect a high-quality sales experience and accessible customer support. Consumers are trusting of brands that provide detailed product information, respond quickly to customer concerns, and offer consistent, high-value deals on goods (“BrandSpark Canadian Shopper Study,” 2015). Given that 91% of Canadians check grocery store flyers on a monthly basis, print flyers can significantly influence Canadians purchasing behavior (“BrandSpark Canadian Shopper Study,” 2015).

Reaching the Canadian Consumer

There tends to be an assumption that because Canada and the United States share a border, residents of both nations are very similar in terms of consumer behavior and preferences.

The reality is Canadians and Americans are similar in some aspects, but advertising preferences prove to be significantly different. Despite increasing acceptance and use of online advertisements in Canada, print ads remain to have the strongest impact on the purchasing behavior of Canadians across all goods and services. Canadians prefer and retain special advertising from newspapers, especially weekly deals for pharmaceutical products and grocery items (“Reaching the Canadian Consumer,” 2018). Television advertising is successful for targeting Canadians ages 35-49, but online ads show a stronger influence on intention to buy certain products. Canadian retailers have not been able to establish an internet presence, including social media accounts and online advertisements, as fast as their counterparts in the US.

While Canadians have different advertising preferences, it is also important to consider the difference in languages spoken around the country. The only way to create effective advertisements and reach consumers is to speak to them in their own language. Canada has two official languages, French and English, but there are plenty of other languages spoken around the country. The use of either French or English is accepted throughout the country, but in Quebec, a province in Eastern Canada, French is the default language for advertisements. As previously mentioned, there are large numbers of nonofficial language speakers in the most populated metropolitan areas such as Toronto, Vancouver, and Montreal (Grenier, 2017). Canada has an incredibly diverse population, and forecasts project a further increase in the number of immigrants settling in the country. The influx of immigrants in the country brings new languages and also has a strong influence on the behavior of the Canadian consumer, especially food shoppers (“Reaching the Canadian Consumer,” 2018).

3.2 Political Aspects

The Government of Canada is a constitutional monarchy, parliamentary democracy, and a federation. The Prime Minister, currently Justin Trudeau, serves as the head of the government and the executive power. Trudeau is from the liberal party and campaigned on promises, such as reducing the tax burden for middle class Canadians and increasing spending on infrastructure and growth (“Canada country profile,” 2017). With the United States recently cutting corporate tax rates to 21% from 35% there is concern that Canada may lose its competitive appeal for international businesses. The corporate tax rate set by the federal government of Canada is 15%. In some major provinces, the federal tax rate combined with provincial tax rates reach nearly 27% (Smith, 2018). As a result, firms may be inclined to redirect business to the United States to lower their overall costs.

3.3 Economic Aspects

The Canadian Grocery Market

As previously discussed, the Canadian grocery market is significantly smaller than that of the United States. While this may suggest Aldi will gain less market share in Canada than it has in other countries, recent reports indicate that retail expansion in Canada has been increasing with over 50 international retail brands entering in 2017 (Patterson, 2018). This increase indicates may lead to growth in the Canadian grocery market for Aldi to gain share in. Recent economic growth in Canada also makes the country a more appealing market to enter. Household spending has been the biggest contributor to economic growth in Canada in recent years. Since the election of Prime Minister Justin Trudeau in 2015, the Canadian government has enacted measures, including the major reform to the personal income tax system, intended to support the

middle class. Figure 1 shows that Canadian GDP and GDP per capita have been increasing in recent years and are projected to continue growing.

Challenges for Canadian Business

The unemployment rate in Canada reported for March 2018 was 5.8%. The last time Canada saw a rate this low was in late 2007 (Carmichael, 2018). The strength of Canada's labor market presents the potential for a shortage of workers in the near future. The federal labor minister, Patty Hadju, has expressed concern for the lack of skilled workers. Banks are also concerned because capital is leaving Canada in response to President Donald Trump's implementation of import tariffs (Carmichael, 2018). Canadian business leaders identify the lack of skilled laborers, as well as extremely high levels of household-debt, need for affordable real estate, and improving infrastructure for mass-transport, as the major challenges for business operations. To fuel further economic growth, large employers will need to increase spending to win new markets or new entrants will need to penetrate these untapped markets. Economic policies will also need to address the rising levels of household-debt, the need for improved infrastructure, and the lack of affordable land. The possibility of a tight labor supply given the recent economic growth presents a challenge for current and new firms. Firms will have to compete to acquire and retain skilled laborers.

4. RECOMMENDATIONS

Aldi's business model has proven to be successful in twenty different countries around the world, and we see potential for expansion in Canada. Canadian consumers have a high propensity towards discount shopping. Although they prefer printed coupons, which Aldi does not offer, the value-oriented Canadian consumer will appreciate and take advantage of Aldi's

“Special Buy” deals on Wednesdays and Saturdays. Additionally, since ninety per cent of products sold at Aldi are private label, Aldi is able to be more transparent about their supply chain. Aldi will be able to provide an abundance of information to consumers on how they ethically source and produce their products.

Aldi’s private label products also have a proven history of becoming consumer favorites in countries Aldi has entered. In Australia, for example, Aldi’s diaper brand Mamia has become one of the top two diaper brands in the country (Reynolds, 2014). There is huge potential for some of Aldi’s discount, private label products to become favorites among Canadian grocery shoppers.

We recommend that Aldi enters Canada more slowly than Target attempted to a few years ago. Target entered Canada quickly, opening 124 stores after buying the store leases of a Canadian discount chain. These stores were not optimally designed for Target’s big box strategy and were not conveniently located. Targets all around the country featured empty shelves as a result of opening too many stores too rapidly. Additionally, Target Canada ended up unable to compete in a price war with Walmart (Wahba, 2015). A more intentionally designed entrance strategy will allow Aldi to avoid the empty shelves customers saw in Target’s around the country. A slower entry into the country will also allow Aldi Corporate to build out operations and offices near grocery locations as needed. They will need to tailor their marketing strategies so that consumers of all languages spoken in Canada are able to understand advertisements. They should capitalize on the Canadian consumer’s affinity for print advertising by marketing their weekly “Special Buys” in newspapers.

After consideration of Aldi's history of international expansion as well as the Canadian grocery market and consumer, we believe that Aldi will likely find success in this venture. Aldi's strategy, offering a no-frills shopping experience with few SKUs at the lowest price possible, is in line with what Canadian consumers prefer. After solidifying their position in the US grocery market, we recommend Aldi looks to slowly and strategically enter Canada.

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APPENDICES

Country	Since	Outlets
Germany	1961	4,178
United States	1976	1,750
France	1988	891
United Kingdom	1990	762
Australia	2001	502
Netherlands	1973	491
Austria	1968	480
Belgium	1973	457
Spain	2002	264
Denmark	1977	222
Switzerland	2005	190
Hungary	2008	130
Ireland	1999	130
Poland	2008	124
Slovenia	2005	80
Portugal	2006	48
Italy	2018	24
Luxembourg	1990	12
total number of Aldi stores:		10,735

Figure 1. Aldi Geographic Distribution

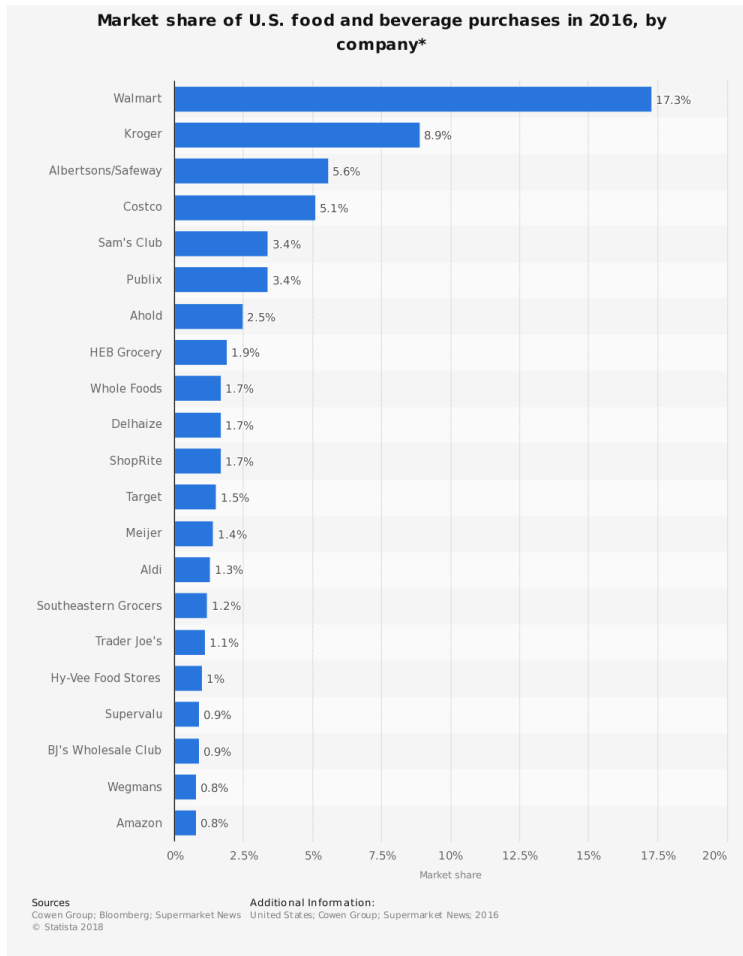


Figure 2. Largest Food and Beverage Retailers in US (Statista, 2016)

Main Indicators	2015	2016	2017	2018 (e)	2019 (e)
GDP (billions USD)	1,552.81	1,529.76	1,640.39e	1,763.49	1,838.64
GDP (Constant Prices, Annual % Change)	0.9	1.5	3.0e	2.1	1.7
GDP per Capita (USD)	43,350	42,225	44,773e	47,658	49,196
General Government Balance (in % of GDP)	-0.5	-1.1	-2.1e	-2.1	-1.9
General Government Gross Debt (in % of GDP)	91.6	92.4	89.6e	87.7	85.8
Inflation Rate (%)	1.1	1.4	1.6e	1.8	2.1
Unemployment Rate (% of the Labour Force)	6.9	7.0	6.5	6.3	6.2
Current Account (billions USD)	-52.81	-50.53	-55.57e	-51.19	-44.98
Current Account (in % of GDP)	-3.4	-3.3	-3.4e	-2.9	-2.4

Source: IMF – World Economic Outlook Database, 2017

Note: (e) Estimated Data

Figure 3. Canadian GDP Growth (IMF, 2017)